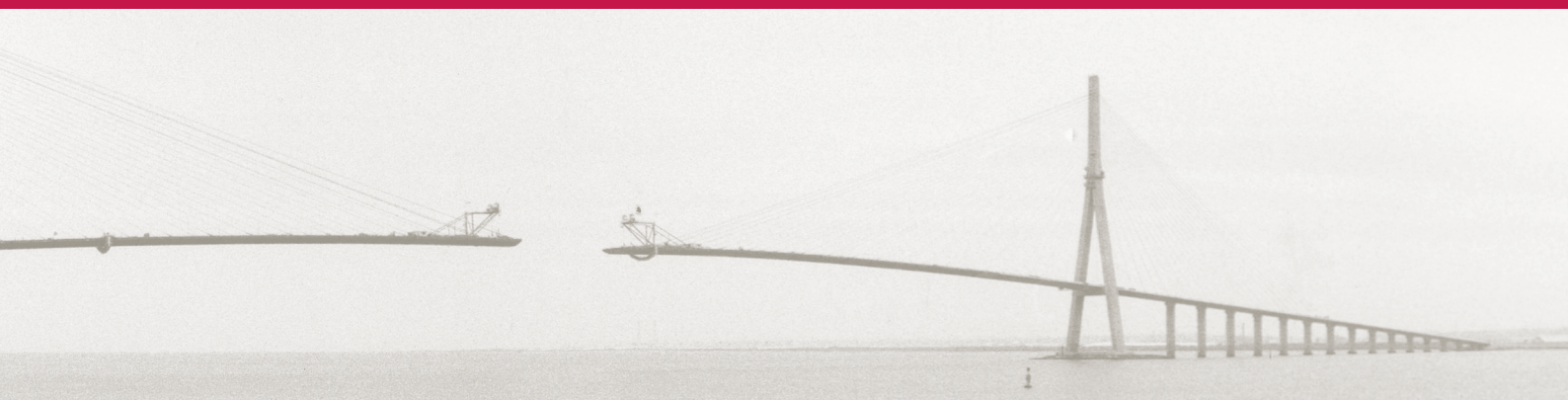


Deutsches Institut für  
EntwicklungspolitikGerman Development  
Institute

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## Sustainability Standards and Certification – Towards Sustainable Palm Oil in Indonesia?

### Summary

Palm oil production is currently the focus of much contentious debate. On the one hand, palm oil production has a substantial, positive (socio-) economic impact in countries which produce it, like Indonesia, and is a powerful engine of rural development. On the other hand, palm oil production has a severe negative impact regarding ecological and social sustainability. This is due above all to its large carbon footprint, reduced biodiversity, and its potential for triggering land rights conflicts. The growing world demand for and rising production of palm oil underlines the relevance of sustainability questions in this regard.

Sustainability concerns have spurred numerous efforts to introduce standards and certification schemes for sustainable palm oil production. In Indonesia, two of these standards are particularly relevant: ISPO (Indonesian Sustainable Palm Oil) and RSPO (Roundtable on Sustainable Palm Oil).

This Briefing Paper focuses on the question of whether sustainability standards like RSPO can represent an effective tool for minimising the negative ecological impact of palm oil cultivation. We argue that this depends on a number of factors, including:

- (i) the inclusion of smallholders as a highly important group of producers in the Indonesian palm oil industry,

- (ii) the strictness of the standard's Principles and Criteria (P&C),
- (iii) their adequate implementation and control,
- (iv) a suitable political and economic framework for smallholder certification, especially regarding good governance and domestic and international demand for certified, sustainable palm oil (CSPO).

Against this background, practical steps to enhance the effectiveness of sustainability standards include:

- Supporting smallholder certification projects with a strong ecological component
- Balancing a trade-off between strict and easy-to-reach standards
- Balancing a trade-off between socioeconomic and ecological goals
- Choosing reputable certification bodies and reliable project partners
- Increasing incentives and/or outside pressure to stay certified
- Improving the coherence of land use planning, laws and regulations
- Fighting corruption and strengthening law enforcement

## The case for standards

The oil palm is the world's highest-yielding source of vegetable oil. Palm oil is used in most processed foods and many household products and as a renewable feedstock for electricity and biofuel production. An ever-increasing demand from European, American and Asian markets, paired with the economic attractiveness of the crop, has led to a fast expansion of the Indonesian palm oil sector, making Indonesia the world's biggest producer and exporter.

Its high return on land and labour make palm oil a valuable asset to the Indonesian economy. Palm oil production also has a substantial and positive (socio-) economic impact, promoting rural development by improving the incomes and livelihoods of smallholders.

At the same time, however, the expansion of oil palm cultivation into forested land and peatland has a serious negative ecological impact, including a large carbon footprint and the loss of biodiversity.<sup>1</sup> In addition, oil palm cultivation can have a negative social impact, particularly in the form of conflicts over land rights. Campaigns from non-governmental organisations (NGOs) have alerted concerned consumers to the negative impact of oil palm cultivation. This has led to various initiatives aimed at introducing sustainability standards and certification schemes.

In Indonesia, two different standards are most relevant in this regard: (i) the public ISPO (Indonesian Sustainable Palm Oil) standard and (ii) the private RSPO (Roundtable on Sustainable Palm Oil) standard. ISPO is a mandatory certification scheme that aims at certification of all Indonesian growers, including smallholders. RSPO is an international, voluntary multi-stakeholder standard for palm oil (see also Box 1).

### Box 1: The Roundtable on Sustainable Palm Oil (RSPO)

The RSPO is a voluntary, multi-stakeholder initiative founded in 2004. It aims to make palm oil production more sustainable through the creation of a credible global standard. RSPO membership spans seven sectors of the palm oil industry: growers, processors and traders, consumer goods manufacturers, retailers, banks and investors, environmental NGOs, and social NGOs. RSPO has a set of Principles and Criteria (P&C). Its 8 principles are the following: transparency; compliance with laws and regulations; economic long-term planning; use of best practices by growers and millers; environmental responsibility and conservation of natural resources and biodiversity; responsibility for employees and affected individuals and communities; responsible development of new plantings; continuous improvement in key areas of activity. Every principle has a set of criteria, each of which is monitored via indicators. In May 2012, production capacity reached 6.4 million tonnes of RSPO-certified palm oil annually, with a clear upward trend.

Source: [www.rspo.org](http://www.rspo.org)

<sup>1</sup> When peatland is converted to palm oil plantations, it must first be drained, which leads to the release of massive amounts of greenhouse gases into the atmosphere (World Bank 2010).

This Briefing Paper focuses on RSPO, since ISPO is still at a very early stage of development in Indonesia, while RSPO has achieved a considerable degree of maturity. This paper is based on a research project concerning smallholder certification under RSPO; it summarizes findings gained during eleven weeks of field research in Indonesia from February to April 2012 regarding the ecological effectiveness of standards.

## Standards: a sustainability tool?

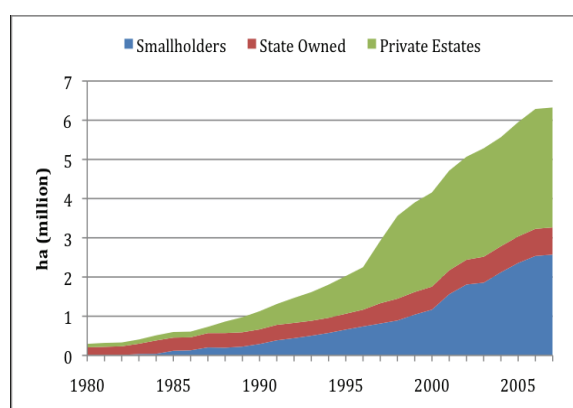
The RSPO aims to reduce the above-mentioned negative impact of oil palm cultivation. It also aims to generate socioeconomic benefits, such as increased yield and improved production quality through good agricultural practices (GAP), knowledge distribution through training, and the prevention and resolution of conflicts through a dispute resolution mechanism.

A question still open, however, is the extent to which private sustainability standards can effectively minimise the negative ecological impact of palm oil cultivation. In this regard, as the interviews conducted during our field research underscored, four issues are essential: 1) the standards and their certification must include all types of producers; 2) the standards must be formulated ambitiously and strictly while being achievable for smallholders; 3) the standards must be implemented properly and controlled adequately; 4) the goals pursued with the private RSPO standard must be attained within the context of Indonesia's unfavourable political economy and institutional environment.

## Sustainability standards and smallholder inclusion

A more ecologically and socially sustainable level of palm oil production will require the inclusion of all producers. In Indonesia, smallholders are an important group of producers in the palm oil industry (see Figure 1); they account for 38% of the total cultivation area and 35% of production output (IPOC 2012). Thus the RSPO standard can only be effective from an economic, ecological and social perspective if it includes this important group of palm oil producers, including both so-called scheme smallholders (who are tied to plantations and mills) and independent smallholders (who operate independently throughout all phases of production).

**Figure 1: Development of cultivated areas by producer group in Indonesia**



Source: World Bank 2010

Nevertheless, RSPO certification of smallholders is challenging; it requires a set of financial, managerial and agroeconomic capacities which many smallholders lack. Government institutions, standard-setting bodies, and international organizations are aware of this problem of smallholder inclusion and have begun to tackle it. The general RSPO Principles & Criteria (P&C) have been modified for smallholders, and an ISPO smallholder version is currently under preparation. In Indonesia, the first group of scheme smallholders has been certified, and the certification of independent Indonesian smallholders is in preparation.

### Strictness of sustainability standards

The formulation of the P&C of a standard implies difficult trade-offs. In particular, there are two interrelated trade-offs:

The first concerns the strictness of a standard – and thus its criteria and effectiveness – and the possible inclusion of many producers. A typical example of this trade-off is the question of whether producers should be required to certify all their palm oil plots, or whether they should be allowed to own certified and uncertified plots at the same time. The first option would clearly be preferable from an ecological point of view: it would forbid simultaneous ownership of an RSPO-certified plot and another plot in peatland or in a former High Conservation Value (HCV) area.<sup>2</sup> However, such a policy might exclude producers who would otherwise be interested in certifying at least one of their plots or plantations.

Regarding the second trade-off, ecological and socioeconomic goals should be given the same priority – and possible contradictions between these two sets of goals should be managed by implementing control and safeguard mechanisms. The current specification of RSPO P&C entails a potential contradiction between the RSPO's socioeconomic and ecological goals. For example, productivity gains related to RSPO certification can potentially lead to increased expansion of producers into forest and other protected areas. This perverse incentive contradicts the aim of RSPO to combat deforestation and should be addressed in smallholder certification projects (see below).

### Implementation and control

In order to ensure that the standard is effectively implemented and has sufficient environmental impact, it is essential to choose reputable and reliable certification bodies. The auditors in turn should choose a representative sample of the audited cultivation area independently and resist all outside attempts to influence their selection.

In the context of smallholder certification projects, it is crucial to work with reliable project partners and to explicitly consider ecological sustainability in the design of such projects. The project partners should pay equal attention to the socioeconomic and ecological requirements of RSPO. Regarding the latter, efforts should not be limited to small-scale ecological benefits, e.g. the

proper disposal of pesticides or reduced chemical usage, but should also aim at large-scale ecological benefits such as reducing deforestation and greenhouse gas (GHG) emissions.

### Framework conditions for sustainability standards

Both for companies and for smallholders, the effectiveness of sustainability standards is heavily dependent on external factors – most importantly governance and global markets.

Good governance plays a key role: laws and regulations affecting the effectiveness of such standards (e.g. concerning the protection of HCV areas or the land rights of indigenous people), must be coherent both at the national level (i.e. harmonized between different ministries) and between national and regional levels; this is currently not the case in Indonesia. Moreover, those laws clearly also need to be enforced – often against the odds of widespread corruption. Corruption also hampers the effectiveness of standards, for example when land certificates for protected areas can be bought or auditors bribed. Additionally, coherent land use planning is a prerequisite for the effectiveness of sustainability standards, since private standards alone cannot prevent undesirable land use (e.g. deforestation).

Over and above a supportive political framework, however, global markets also play an important role regarding the effectiveness of standards. First of all, there must be sufficient demand for certified palm oil (CSPO). An increase in demand might be achieved by continuous information campaigns about the negative impacts of palm oil production, not only in Europe but also in the emerging Asian markets and in the domestic markets of high-production countries like Indonesia and Malaysia.

Second, the payment of price premiums becomes a viable option only if there is higher demand for sustainable palm oil production. The current lack of price premiums is especially risky with regard to the certification of independent smallholders: If there are no price premiums to motivate smallholders to adhere to the RSPO's P&C over the long term, they may very well opt for the benefits of training and increased yield but choose not to become or stay certified under RSPO – especially if local mills continue to accept uncertified oil palm fruit. Thus it is important to remember not only that smallholders must be motivated to join the RSPO from the beginning, but also that pressure from the outside (certified mills) or incentives (price premiums and training events) will be needed to maintain compliance for many decades. External pressure and incentives are all the more important inasmuch as certification has not yet become a "self-selling item." Especially amongst smallholders, it requires both promotion campaigns and long-term financial and operational support from external actors.

### Making standards more effective

As our research indicated, the following recommendations for practical steps can help to foster the effectiveness of sustainability standards:

#### *Recommendations for supporters of certification projects*

- Avoid conflicting goals: Make sure that an improved socioeconomic situation of smallholders and an in-

2 HCV areas, first defined by the Forest Stewardship Council (FSC) in 1999, are regions with a specific environmental, socioeconomic, biodiversity or landscape value.

creased attractiveness of palm oil production does not lead to an expansion of smallholder plots into forested areas or peatland.

- Strengthen the ecological component of projects, i.e. focus also on large-scale ecological benefits – for example by letting smallholders sign a contract forbidding the establishment of new plots in forested areas. The breach of such a contract should be punished by withdrawal of the certificate of the whole group or by exclusion of the respective member from the group as a means of building up social pressure. In addition, special training events should be held, focusing on the benefits of ecologically sustainable production for smallholders.
- Choose reputable certification bodies with reliable auditors.

#### *Recommendations for standard-setting bodies*

- Balance the trade-off between strictness and attainability of the standards: when (re)formulating a standard, find a balance between strictness and effectiveness of the standard and achievable targets for smallholders.
- Balance the trade-off between socioeconomic and ecological goals: When (re-) formulating a standard, ensure that socioeconomic aims are not achieved at the expense of ecological aims and vice versa.
- Demand certification of the entire plantation area: Neither companies nor smallholders should be allowed to own certified and uncertified plots at the same time. Companies and smallholders should be forbidden to open uncertified plots in forested areas.
- Increase incentives or outside pressure to stay certified: There is a risk that independent smallholders will see the benefits of certification but then choose not to become or stay certified. This can be prevented by incentives, such as adequate price premiums, or by outside pressure, such as certification of local mills.

- Foster demand for certified sustainable palm oil (CSPO): Intensify information campaigns not only in Europe and the United States, but especially in Asian countries (China and India, as well as in the Indonesian domestic market).
- Increase the transparency of audits. Ensure transparency, independence and an external evaluation of the quality of the certification and auditing processes. Transparency enables civil society to monitor and control the process.

#### *Recommendations for the Indonesian government*

- Improve the coherence of land planning: Private standards alone cannot prevent (indirect) land use change. It is the task of the government to develop an effective plan for land use that avoids allocating new plantation areas on forested land, peatland, or the ancestral lands of indigenous communities.
- Improve the coherence of laws and regulations: Laws and regulations must be coherent on a national level (i.e. between different parts of the government), as well as between the national and lower regional levels.
- Fight corruption and strengthen law enforcement: Laws need to be enforced at every level; e.g. regional governors seeking to finance their re-election campaigns by selling licenses for protected areas must be held accountable.
- Monitor protected areas effectively: Neither smallholders nor companies – certified or not – should be allowed to encroach on protected areas without being discovered and held accountable accordingly.

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**Dr. Clara Brandi**

Researcher

Department "World Economy  
and Development Financing"



**Tobias Cabani**



**Christoph Hosang**



**Sonja Schirmbeck**



**Lotte Westermann**



**Hannah Wiese**